

Message Text

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ACTION EUR-25

INFO OCT-01 AF-10 EA-11 NEA-10 ISO-00 CIAE-00 DODE-00

PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01

PRS-01 SPC-03 SS-20 USIA-15 EB-11 COME-00 TRSE-00

SCEM-02 INT-08 AID-20 DRC-01 /176 W

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R 311828Z DEC 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6723

INFO AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TEHRAN

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AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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C O N F I D E N T I A L SECTION 01 OF 02 LONDON 15206

E.O. 11652: XGDS1

TAGS: ENGR

SUBJECT: REPORTS OF LONG TERM UK-SAUDI OIL DEAL

1. SUMMARY. WE SAW TAYLOR (ASSISTANT UNDERSECRETARY,
TO WHOM ENERGY DEPARTMENT REPORTS, FOREIGN AND COMMON-
WEALTH OFFICE) DECEMBER 31 TO ASK ABOUT REPORTS THAT
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APPEARED IN BRITISH PRESS DECEMBER 29, 30 AND 31 TO

EFFECT THAT UK NEGOTIATING LONG TERM AGREEMENT WITH SAUDI ARABIAN GOVERNMENT TO SUPPLY ARMS, TECHNICAL ASSISTANCE AND CAPITAL EQUIPMENT IN RETURN FOR OIL. TAYLOR SAID THAT VARIOUS "ARRANGEMENTS" BOTH BILATERAL AND MULTILATERAL WERE BEING STUDIED, BUT THAT AMOUNT OF OIL THAT MIGHT BE INVOLVED AND BRITISH QUID PRO QUO WERE STILL INDEFINITE WITH ONE EXCEPTION. ARMS WERE NOT REPEAT NOT PART OF ANY ARRANGEMENTS. END SUMMARY.

2. REPORTS APPARENTLY BASED ON PRESS ACCOUNTS IN BEIRUT APPEARED IN BRITISH MEDIA DECEMBER 29 AND 30 TO THE EFFECT THAT THE UK WAS ENGAGED IN NEGOTIATING ARRANGEMENT WITH THE SAUDI ARABIAN GOVERNMENT UNDER WHICH BRITAIN WOULD SECURE AN ASSURED SUPPLY FOF OIL FOR AN EXTENDED PERIOD IN RETURN FOR CAPITAL EQUIPMENT, TECHNICAL ASSISTANCE AND ARMS. FCO DENIED THESE ACCOUNTS DECEMBER 30. ON DECEMBER 31, THE TIMES, QUOTING A FOREIGN OFFICE SOURCE, SAID THAT,

"REPORTS AT THE WEEKEND OF A TEN YEAR ARMS-FOR-OIL AGREEMENT BETWEEN BRITAIN AND SAUDI ARABIA ARE WELL WIDE OF THE MARK. BUT IT CAN BE CONFIRMED THAT THE BRITISH GOVERNMENT HAS BEEN ACTIVELY PURSUING EX-PLORATORY TALKS WITH THE SAUDI ARABIAN GOVERNMENT AND OTHER OIL PRODUCERS." TIMES WENT ON TO SAY THAT HMG'S MOST IMPORTANT AIM IS TO EXPLORE WAYS OF ACHIEVING NEW RELATIONSHIP BETWEEN PRODUCERS AND CONSUMERS OVER DECADE AHEAD UNDER WHICH CONSUMERS WOULD RECEIVE STEADY AND REASONABLE SUPPLY OF OIL AT STABLE PRICES WHILE PRODUCERS WOULD RECEIVE ECONOMIC AND INDUSTRIAL DEVELOPMENT OF THEIR COUNTRIES WITH AID OF INDUSTRY AND EXPERTISE OF INDUSTRIALIZED CONSUMERS. TIMES CONTINUED THAT SECOND AIM OF BRITISH GOVERNMENT IS TO INSURE THAT SAUDIS AND OTHERS WILL INCREASE OIL PRODUCTION BEYOND SEPTEMBER 1973 LEVEL ONCE A MIDDLE EAST SETTLEMENT HAS BEEN ACHIEVED. TIMES NOTED THAT EXPLORATORY TALKS, THUS FAR AT LEAST, HAVE NOT EXTENDED TO ARMS, THOUGH INDUSTRIALIZATION OF ARAB COUNTRIES IN LONG TERM

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COULD INCLUDE SOME DEVELOPMENT OF ARMS INDUSTRY. TIMES REPORTS THAT FCO REPRESENTATIVES POINTED OUT BRITISH GOVERNMENT HAS WELCOMED SECRETARY KISSINGER'S RECENT PROPOSAL FOR ENERGY ACTION GROUP, INCLUDING WESTERN EUROPE, NORTH AMERICA AND JAPAN TO WHICH PRODUCERS MIGHT BE "COOPTED".

3. WE ASKED TAYLOR ABOUT BACKGROUND OF PRESS REPORTS. HE BEGAN BY CATEGORICALLY DENING THAT ARMS WERE PART OF ANY BILATERAL ARRANGEMENTS NOW BEING EXAMINED BY UK AND SAUDI GOVERNMENTS TO PROVIDE OIL TO UK. HE COMMENTED THAT ARMS SALESMEN FROM SEVERAL COUNTRIES INCLUDING UK WERE ACCESSIBLE TO SAUDI GOVERNMENT AT ANY TIME THAT IT WISHES TO BUY ARMS AND THAT HE SAW NO REASON WHY ARMS SHOULD BE PART OF A DEAL INVOLVING OIL. FOR ITS PART HMG WOULD NOT WISH TO BE IN POSITION OF APPEARING TO SUPPLY ARMS TO SAUDIS AT THIS DELICATE POINT IN PROGRESS TOWARDS ME SETTLEMENT.

4. TAYLOR WENT ON TO OUTLINE BACKGROUND OF UK/SAG

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 15206

DISCUSSIONS. HE DREW ATTENTION TO THE VISITS OF MANY REPRESENTATIVES OF GOVERNMENT AND BUSINESSES FROM SEVERAL MAJOR INDUSTRIALIZED CONSUMER COUNTRIES TO SAUDI ARABIA, INCLUDING THE VISITS MADE RECENTLY BY CONFIDENTIAL

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GOVERNOR OF BANK OF ENGLAND AND LORD ALDINGTON AND HIMSELF. VARIOUS PROPOSALS, HE SAID, HAD BEEN DISCUSSED BY WHICH SAUDI PROCEEDS FROM SALE OF OIL MIGHT BE EMPLOYED IN OR BY THE UK. HE EXPECTED SUCH VISITS TO CONTINUE, AND SAID THAT A SMALL TEAM OF BUSINESSMEN PROBABLY ACCOMPANIED BY A BRITISH GOVERNMENT OFFICIAL MIGHT BE EXPECTED TO VISIT SAUDI ARABIA IN NEAR FUTURE TO DISCUSS SPECIFIC WAYS IN WHICH BRITISH INDUSTRY MIGHT BE OF SERVICE TO SAUDIS. IN THIS CONTEXT, VARIOUS FORMS OF ARRANGEMENTS BY WHICH AN ASSUMED SUPPLY OF SAUDI OIL MIGHT BE MADE AVAILABLE HAD BEEN DISCUSSED BUT THE FORM AND CONTENT OF ANY ARRANGEMENT WAS STILL INDEFINITE. THE RESULT MIGHT BE A BILATERAL AGREEMENT, UNDER WHICH STATED QUANTITIES OF OIL WOULD BE MADE AVAILABLE TO THE UK, OR A MORE GENERAL MULTILATERAL ARRANGEMENT BETWEEN THE SAUDIS

AND AN UNSPECIFIED GROUP OF CONSUMERS.

5. WE SAID WE HAD HEARD THAT THE SAUDIS WERE ABOUT TO MAKE AN ARRANGEMENT WITH THE UK FOR LONG TERM SUPPLY OF CRUDE OIL IN THE AMOUNT OF 200,000 BARRELS A DAY. TAYLOR SAID THAT DISCUSSIONS HAD NOT PROCEEDED THIS FAR, AND THAT THE FIGURE OF 200,000 BARRELS A DAY WAS THE SHORT-FALL BETWEEN SAUDI EXPORTS TO UK AT CURRENT LEVELS AND THE AMOUNT OIL COMPANIES IMPORTING CRUDE INTO BRITAIN SAY THEY REQUIRE FROM SAUDI ARABIA. TAYLOR SAID HE HAD DISCUSSED THIS SHORTFALL WITH SAUDI AUTHORITIES DURING HIS VISIT, AND THAT THEY WERE AWARE OF BRITISH VIEWS REGARDING REQUIREMENTS. WE SAID WE HAD HEARD THAT A SAUDI-BRITISH DEAL MIGHT BE IN THE OFFING ALONG THE SAME LINES AS THE SAUDI DEAL WITH THE FRENCH. TAYLOR REPLIED THAT VERY

LITTLE HARD INFORMATION WAS AVAILABLE CONCERNING THE
AMOUNT OR TERMS OF A SAUDI-FRENCH DEAL.

6. WE CONCLUDED BY NOTING OUR GREAT INTEREST IN UK-

SAUDI DISCUSSIONS AND OUR HOPE TO STAY IN CLOSE TOUCH
WITH DEVELOPMENTS. WE ALSO NOTED IMPORTANCE OF CLOSE
COORDINATION AMONG CONSUMERS IF SECRETARY'S PROPOSAL
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FOR ENERGY ACTION GROUP WAS TO REALIZE ITS FULL
POTENTIAL.

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